UNITED STATES DISTRICT COURT
SOUTHERN DISTRICT OF NEW YORK

BURBERRY LIMITED,
a United Kingdom corporation, and

BURBERRY LIMITED,
a New York Corporation

Plaintiffs,

v.

ASHER HOROWITZ,

Defendant.

Civil Action No. 12 Civ. 1219 (PAC)

MEMORANDUM OF LAW IN SUPPORT OF DEFENDANT'S MOTION TO DISMISS PLAINTIFFS' COMPLAINT

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PRELIMINARY STATEMENT

Defendant Asher Horowitz ("Horowitz" and/or "Defendant"), by his attorneys, Allyn & Fortuna LLP, respectfully submits this Memorandum of Law in support of his Motion to Dismiss the Complaint of Plaintiffs Burberry Limited, a United Kingdom corporation, and Burberry Limited, a New York corporation (collectively referred to as "Burberry" and/or "Plaintiffs") pursuant to F.R.C.P. 12(b)(6) for failure to state a claim upon which relief can be granted, and upon dismissal of the action for costs pursuant to F.R.C.P. 54 (d)(1) and attorney's fees pursuant to 15 U.S.C. §1117 (a).

As will be shown herein, all of Burberry's claims against Horowitz in the present action were already litigated in a prior action filed in 2007 against a corporation of which Horowitz was an officer and sole shareholder, and following a bench trial in the 2007 action, a final judgment and permanent injunction were entered in favor of Burberry. Accordingly, Burberry is barred on res judicata grounds from re-litigating identical claims against Horowitz in this action. In addition, the merger doctrine bars Burberry from pursing the instant action since Burberry already holds a judgment on the claims he is asserting against Horowitz. As a result, Burberry's recourse is limited to an action on the judgment, a remedy Burberry is already pursing against Horowitz, in a pending State Court Action. Furthermore, it will be shown that the doctrine of laches is also a bar to Burberry's claims on the basis that Burberry knew of Horowitz's involvement in Designers Imports Inc. since 2004, Burberry failed to name Horowitz as a defendant in the 2007 action despite his apparent involvement in operating Designers Imports, and instead waited until 2012 to enforce its trademark rights against Horowitz.

STATEMENT OF RELEVANT FACTS

Background of Burberry's Dispute with defendant Horowitz

There has been a long history of interaction between Burberry and Horowitz going back at least eight years prior to the commencement of the instant action. Since 2003, Horowitz operated an on-line retail business for the sale of designer handbags, accessories and clothing under the trade name "Designers Imports", an unincorporated business. See Ex. "F" to Fortuna Decl. at pg 5, ¶ 17. As early as 2004, Burberry's in –house attorney, Fabio Silva, contacted Horowitz regarding the alleged sale of counterfeit Burberry products on the Designers Import's website. See Ex. "D" to Fortuna Decl. at Section I. However, no legal action was taken by Burberry against Horowitz or Designers Imports at the time. Then, in April 2005, following extensive negotiations between Mr. Silva, defendant Horowitz, through his attorneys Goodman & Saperstein[1], and Arnold & Porter[1]—Burberry's outside counsel, Horowitz, Designers Imports and Burberry entered into a settlement agreement resolving Burberry's claims relating to the sale of alleged counterfeit Burberry merchandise on the Designers Imports website ("2005 Settlement Agreement"). The agreement was amended in May 2005. See Ex. "D" to Fortuna Decl. On or about November 16, 2005, Horowitz formed the corporation Designers Imports Inc. d/b/a Designers Imports.Com U.S.A., Inc. ("Designers Imports"), which owned and operated an on-line retail business involved in the sale designer handbags, accessories and clothing. See Ex. "C" to Fortuna Decl. at ¶ 10.

[1] Goodman & Saperstein represented Horowitz individually and his unincorporated business Designers Imports in negotiating the 2005 Settlement Agreement with Burberry and in the 2007 action commenced by Burberry against Designers Imports Arnold & Porter represented Burberry in both the negotiation of the 2005 Settlement Agreement and in the 2007 action against Designers Imports.

Burberry's Action against Designers Imports

Two years later, on May 22, 2007, Burberry Limited and Burberry U.S.A. filed an action against Designers Imports Inc. d/b/a Designers Imports.Com U.S.A., Inc. in the United States District Court, Southern District of New York under Docket No. 07-CV-3997, which was later amended on June 5, 2007 ("*Action 1*"). See Ex. "B" to Fortuna Decl. Pursuant to the allegations of the *Action 1* Amended Complaint, Burberry U.S.A. is a sister company of co-plaintiff Burberry Limited and "manages the trademarks owned by Burberry Limited in North America, including the Burberry Trademarks." See Ex. "B" to Fortuna Decl. at ¶ 10. In *Action 1*, Burberry sought to protect its trademarks in the Burberry name, the Burberry Check and the Burberry Equestrian Knight on Horseback designs (collectively referred to as "Burberry Trademarks") See Ex. "B" to Fortuna Decl. at ¶ 3 and Exs. A, B & C thereto. Burberry asserted claims against ***only*** Designers Imports for, inter alia, trademark counterfeiting and infringement under Federal and New York Common Law, false designation of origin, trade name infringement and false description and representation claims under the Lanham Act, federal and state law dilution claims, deceptive acts and practices under Section 349 of New York General Business Law, and a breach of contract claim related to the 2005 Settlement Agreement. See Ex. "B" to Fortuna Decl. Although not specified in the *Action 1* Amended Complaint, all the claims appear to have been based on the alleged sale of counterfeit Burberry products between 2006 and 2007 by Designers Imports. See Exs. "B" & "F" to Fortuna Decl.

Prior to and throughout the proceedings in *Action 1*, Horowitz's role as officer and shareholder of Designers Imports and his involvement in day to day operations of the business was at all times known to Burberry. In fact, the *Action 1* Amended Complaint expressly references Horowitz in its allegations regarding Designers Imports' unlawful use of Burberry Trademarks. See Ex. "B" to Fortuna Decl. at ¶ 23 ("Upon information and belief, Defendant and its principal, Asher

Horowitz, have attempted to import merchandise such as vinyl tote bags or handbags that violate Burberry's trademark rights, and the U.S. Customs and Border Protection has deemed infringing.") Furthermore, in *Action 1* Horowitz was deposed by Burberry's counsel for over six hours on April 15, 2008, during which he was extensively questioned on his personal involvement in the sale of Burberry related goods by Designers Imports. See Ex. "E" to Fortuna Decl. at *e.g.* pg. pg. 26, ln 11-13, pg. 47, ln 15, pgs. 55-57, pg. 97, lns 12-14, pgs. 88-9, pgs.127-8, ln 23-4, pg 181, lns 4-5, 215, ln 6-9, pg. 339, lns 4-10. Horowitz was also extensively questioned regarding communications with Burberry's in-house attorney that occurred prior to the incorporation of Designers Imports and the execution of the 2005 Settlement Agreement. See Ex. "E" to Fortuna Decl. at pgs. 325-330, pg. 340. In addition, Horowitz was questioned about his execution of the 2005 Settlement Agreement. See Ex. "E" to Fortuna Decl. at pgs 176-7, 341. The scope of the questions asked by Burberry's attorneys during Horowitz's deposition demonstrates their knowledge of Horowitz's involvement in Designers Imports' business.

On September 14, 2009, nearly 1.5 years after Horowitz was deposed and five years after Burberry first communicated with Horowitz regarding the alleged sale of counterfeit Burberry products, a bench trial was held before this Court in *Action 1*. Horowitz was present at the trial and testified. At no time between the filing of action in 2007 and the trial did Burberry make any attempt to add Horowitz as a defendant in *Action 1*. By Order dated January 19, 2010, this Court ruled on the merits of Burberry's claims and found that Designers Imports sold twelve items of counterfeit merchandise to Burberry between 2006 and 2007 ("*Action 1* Order"). See Ex. "F" to Fortuna Decl. In the *Action 1* Order, this Court recited the following facts stipulated to by the parties in a joint pre-trial order:

18. Asher Horowitz is the owner and Chief Operating Officer of Designers.

19. Mr. Horowitz is the only officer of Designers, its only Director, and its sole shareholder.

20. Mr. Horowitz sets the price for the goods that his business sells. He also decides what will be displayed on www.designersimporsts com.

26. Mr. Horowitz is the only person who decides what Burberry-branded goods Designers will sell on its website.

34. Investigators acting on behalf of Burberry purchased the following Burberry-branded articles of clothing from Designers' website, www.designersimports.com (the "Purchased Goods"):

- One bikini with check trim purchased March 1, 2006;
- Three polo shirts, one white, black and gray purchased on March 1, 2006;
- One "Constance padded jacket purchased on February 7, 2007;
- A second padded jacket, in the longer "Langford"style, purchased on April 7, 2007;
- One cashmere "Baby Blue Happy Scarf" and one cashmere "Classic Plaid Scarf," purchased on June 9, 2007;
- One "Nova Check Cashmere Scarf" purchased on October 11, 2007;
- One cashmere Cream-White Check "Plaid Mini Scarf" purchased on April 7, 2008,
- Two white t-shirts with checked trim purchased on February 7, 2007 and April 7, 2007.

See Ex. "F" to Fortuna Decl. at pgs. 5-8. The Court defined the issues to be established by Burberry at trial as "(1) to establish that Defendants were the source of the counterfeit products; and (b) to establish that Defendant's violations were willful or the result of willful blindness" and Designers Import's goal at trial "to minimize its damages to the extent possible." See Ex. "F" to Fortuna Decl. at p. 9. The *Action 1* Order cites extensively to Horowitz's testimony. See Ex. "F" to Fortuna Decl. at pp. 8-13. In the *Action 1* Order, this Court found Designers Imports liable for: trademark counterfeiting, infringement, false designation of origin, trade name, infringement and false description and representation under the Lanham Act (Counts I, II and III), trademark dilution under the Lanham Act and N.Y. Gen. Bus. L. § 360-1 (Counts IV and VI), deceptive acts and practice under N.Y. Gen. Bus. L. § 349 (Count V), trademark infringement and unfair competition under New York common law (Counts VII and VIII), breach of the 2005 Settlement Agreement relating to violations occurring prior to May 22, 2007 (Count IX). See Ex. "F" to Fortuna Decl. This Court dismissed Burberry's unjust enrichment claim (Count X) on the basis that "a party cannot prevail on remedies both under contract and quasi contract theories." See Ex. "F" to Fortuna Decl. at pg. 20. The Court further found that Designers Imports' trademark violations were willful but that factors mitigating the degree of willfulness were demonstrated. See Ex. "F" to Fortuna Decl. at pg. 21.

The *Action 1* Order in favor of Burberry was reduced to a **Final Amended Judgment and Permanent Injunction** dated June 25, 2010 and entered on July 29, 2010, in the amount of $1,864,875.00 plus interest, attorneys' fees in the sum of $663,001.84 and costs in the sum of $64,194.05. See Ex. "G" to Fortuna Decl. The Permanent Injunction awarded to Burberry in *Action 1* states that:

> "5. Designers Imports and any successors or assigns, its officers, agents, servants, employees, and all persons acting in concert with them are hereby **PERMANENTLY ENJOINED** from infringing in any manner directly or indirectly on any Burberry trademark; and
>
> IT IS FURTHER ORDERED THAT
>
> 6. If Designers Imports infringes any Burberry trademark in any manner, Designers Imports will automatically be permanently enjoined from selling, offering for sale, advertising or distributing any Burberry-branded merchandise."

See Ex. "G" to Fortuna Decl.

Burberry's State Court Action against defendant Horowitz

After obtaining the Final Amended Judgment and Permanent Injunction in *Action 1*, Burberry, rather than seek to enforce their judgment against Designers Imports, have engaged in vexatious litigation intended to harass and hold Horowitz personally liable on the Judgment it holds against Designers Imports. On or about September 16, 2011, Burberry filed a Summons and Verified Complaint in New York Supreme Court entitled Burberry Limited and Burberry U.S.A. v. RTC Fashion Inc. d/b/a Designers Imports t/a Fashion58 Com. and Asher Horowitz, under Index No. 110615/11 ("State Court Action"). Horowitz is an officer of RTC Fashion Inc. d/b/a Designers Imports t/a Fashion58.Com ("RTC"). An Amended Complaint was filed in the State Court Action on November 23, 2011, in which Burberry seeks to hold RTC and Horowitz personally liable on the judgment obtained against Designers Imports, and has asserted claims for fraudulent conveyance and piercing the corporate veil. See Ex. "C" to Fortuna Decl.

Burberry's Present Action against defendant Horowitz

On February 16, 2012, despite having already been awarded a final judgment and permanent injunction in *Action 1* and the pendency of the State Court Action against defendant Horowitz, Burberry filed another action against Horowitz in this Court under Docket No. 12 civ. 1219 ("*Action 2*"). See Ex. "A" to Fortuna Decl. In *Action 2*, Burberry asserts claims for trademark counterfeiting, infringement and false designation of origin under the Lanham Act (Counts One and Two), common law trademark infringement and unfair competition (Count Three) and breach of the 2005 Settlement Agreement (Count Four), all arising from the same sales of Burberry branded merchandise that were at issue in *Action 1*. See Ex. "A" to Fortuna Decl. Specifically, attached to the Complaint in *Action 2* is a "Contention of Related Case" signed by Burberry's counsel, stating that:

> "the *Plaintiffs in both actions are the same* and *both actions involve the same wrongful acts of trademark counterfeiting*. In the Designers Imports Action, the Court held a two-day bench trial, and determined that the corporate defendant there was a willful counterfeiter and trademark infringer. The Court awarded over $2.5 Million in statutory damages, attorney's fees, costs and pre-judgment interest. The current action is brought against defendant Asher Horowitz, the sole shareholder and officer of the corporate defendant in the Designers Imports Action. The *same wrongful activities are at issue in this action*; Plaintiffs now seek to hold Mr. Horowitz individually liable for *the same wrongful activities as to which the Court has already found the corporation liable*"

See Ex. "A" to Fortuna Decl. Similar allegations regarding the identical nature of the claims in *Action 1* and in *Action 2* are contained in the *Action 2* Complaint. See Ex. "A" to Fortuna Decl. at ¶ 2, 29-33. Burberry cannot dispute that the allegations in the *Action 2* Complaint relating to Horowitz's role in Designers Imports' business were known to it prior to commencing *Action 1* or, at the latest, following Horowitz's deposition on April 15, 2008. See Ex. "A" to Fortuna Decl. at ¶¶

21-26, and Ex. "E" at pg. 26, ln 11-13, pg. 47, ln 15, pgs. 55-57, pg. 97, lns 12-14, pgs. 88-9, pgs.127-8, ln 23-4, pg 181, lns 4-5, 215, ln 6-9, pg. 339, lns 4-10. Furthermore, Burberry alleges in the *Action 2* Complaint the close relationship that existed between Horowitz and Designers Imports while *Action 1* was pending. Specifically, Burberry alleges that:

> 31. Upon information and belief, as the sole shareholder of, officer of and decision maker for, the Designers Imports corporation, defendant Horowitz controlled and directed Designers' Imports participation in the Designers Imports Civil Action.
>
> 32. Specifically, Mr Horowitz instructed the corporation's lawyers, made all client decisions for Designers Imports as a litigant in the case, and otherwise controlled the participation of Designers Imports in the lawsuit
>
> 33. Further as sole shareholder of Designers Imports, Mr. Horowitz had an economic interest in the outcome of the case.

See Ex. "A" to Fortuna Decl. Additionally, in its prayer for relief, Burberry seeks, inter alia, a judgment finding Horowitz liable on all claims, judgment binding defendant Horowitz to the "Findings of Fact and Conclusions of Law of the Court in the Designers Imports Civil Action"; a preliminary and permanent injunction against Horowitz [relief which they already have under the Amended Judgment and Permanent Injunction entered in *Action 1* (see Ex. "G" to Fortuna Decl.)], and an assessment of damages, profits, attorney's fees and costs against Horowitz. See Ex. "A" to Fortuna Decl.

Prior to issue being joined, in correspondence to this Court dated March 9, 2012, Burberry's counsel requested a pre-motion conference to discuss the filing of a summary judgment motion and the scheduling of defendant Horowitz's deposition. See Ex. "H" to Fortuna Decl. By correspondence to this Court dated March 13, 2012, defendant Horowitz also requested a pre-motion conference to discuss the filing of a Rule 12 (b) (6) motion to dismiss on res judicata grounds. See Ex. "I" to Fortuna Decl Thereafter, in correspondence dated March 20, 2012, Burberry's counsel, in stark contrast to the allegations contained in the *Action 2* complaint that "Horowitz instructed the corporation's lawyers, made all client decisions for Designers Imports ***as a***

litigant in the case,... controlled the participation of Designers Imports in the lawsuit,...[and] had an economic interest in the outcome of the case", purported to argue against the application of res judicata by stating that Horowitz "only participated in and controlled the prior suit in his ***representative capacity*** as president of the corporate defendant". See Ex. "J" to Fortuna Decl. It is submitted that Burberry is bound by the allegations contained in the Complaint.

A conference was held on April 11, 2012 and defendant Horowitz was granted permission to file the instant motion on or before May 11, 2012.

ARGUMENT

POINT I

STANDARD ON A MOTION TO DISMISS

Horowitz makes the instant motion pursuant to Fed. R. Civ. P. § 12 (b) (6) for dismissal of Burberry's complaint for failure to state a claim. In considering a motion to dismiss, courts "must accept as true the material facts alleged in the complaint and draw all reasonable inferences in plaintiff's favor." See Cameron v. Church, 235 F.Supp.2d 611, 617 (S.D.N.Y. 2003). However, for a complaint to survive a motion to dismiss under F.R.C.P. (12) (b) (6), it must include "sufficient factual matter, accepted as true, to 'state a claim to relief that is plausible on its face.'" See Ashcroft v. Iqbal, 556 U.S. 662, 679 (2009) *citing* Bell Atlantic Corp v. Twombly, 550 U.S. 544, 547 (2007). "A claim has facial plausibility when the plaintiff pleads factual content that allows the court to draw the reasonable inference that the defendant is liable for the misconduct alleged." Id Although courts afford a plaintiff every favorable inference, a "claim may still fail as a matter of law if it appears beyond doubt that the plaintiff can prove no set of facts in support of its claim which would entitle it to relief, or if the claim is not legally feasible." See Feitshans v. Kahn, 2006 WL 2714706, at *2 (S.D.N.Y. 2006).

The defense of res judicata is properly raised on a motion to dismiss pursuant to F.R.C.P. 12 (b) (6) "when its inquiry is limited to plaintiff's complaint, documents attached or incorporated therein, and materials appropriate for judicial notice." See Akhenaten v. Najee, LLC, 544 F Supp.2d 320, 327 (FN9) (S.D.N.Y. 2008); Cameron, 235 F.Supp.2d at 618; Day v. Moscow, 955 F.2d 807, 811 (2d Cir. 1992). Although in deciding a motion to dismiss under Rule 12 (b) (6) courts are generally limited to the four corners of the complaint, "it is permissible for the court to consider materials outside the record that were relied upon in drafting the complaint or that are integral to the complaint only if the court has determined that there are no disputes as to the authenticity, accuracy and relevance of such materials." Feitshans, 2006 WL 2714706, at *2; see also, Pani v. Empire Blue Cross Blue Shield, 152 F.3d 67, 75 (2d Cir. 1998) ("[i]t is well-established that a district court may rely on matters of public record in deciding a motion to dismiss under Rule 12(b)(6), including case law and statutes.") Similarly, a defense based on the merger doctrine, which is closely related to a res judicata defense, can also be raised in a motion to dismiss the pleadings. See Counsel Financial Services, LLC v. Leibowitz, Slip Copy, 2012 WL 1057311 (W.D.N.Y. March 27, 2012).

In addition, while the doctrine of laches is normally an affirmative defense to be raised in a pleading pursuant to F.R.C.P. 8(c), an exception permitting the defense to be raised on a Rule 12 (b) (6) motion is made where it is "clear on the face of the complaint, and where it is clear that the plaintiff can prove no set of facts to avoid the insuperable bar…") See Fitzpatrick v. Sony-BMG Music Entertainment, Inc., 2008 WL 84541, at * 3 (S.D.N.Y. Jan. 8, 2008); Oshiver v. Levin, Fishbein, Sedran & Berman, 38 F.3d 1380, 1385 FN 1 (3rd Cir. 1994).

As will be shown herein, even if all the allegations in the Complaint are deemed true and Burberry is afforded every reasonable inference, its claims against defendant Horowitz are barred under the doctrine of res judicata and, alternatively, under the merger doctrine and as a result of their laches in bringing the action against Horowitz.

POINT II

PLAINTIFFS' COMPLAINT IS BARRED BY THE DOCTRINE OF RES JUDICATA

Under the well-settled doctrine of res judicata "[a] final judgment on the merits of an action precludes the parties or their privies from re-litigating issues that were or could have been raised in that action." See Federated Department Stores, Inc. v Miotie, 452 U.S. 394, 398 (1981); Saud v. Bank of New York, 929 F.2d 916, 918 (2d Cir. 1991). "The general rule of *res judicata* applies to repetitious suits involving the same cause of action." See In re Teltronics Services, Inc., 762 F.2d 185, 190 (2d Cir 1985) (citation omitted); see also, Akhenaten, 544 F.Supp. 2d at 328 (S.D.N.Y. 2008) ("'Although fair play demands that a party have his day in court, the doctrine of res judicata forecloses a second day [internal citation omitted.]'")

The Second Circuit has adopted a four-part test to determine whether res judicata bars a claim. (i) whether the court who heard the prior action was of competent jurisdiction, (ii) whether there was a final judgment on the merits, (iii) whether the prior action involved the same parties or their privies, and (iv) whether the prior action involved the same cause of action. See Teltronics, 762 F.2d at 190.

In *Action 2* Burberry seeks to hold Horowitz individually liable for violations of the Lanham Act by alleging that he was the moving force behind Designers' Imports' previously adjudicated infringing acts. A claim against Horowitz in his individual capacity was actionable in 2007 when Burberry filed *Action 1* Therefore, this Court's focus in considering the instant motion is whether Burberry could have brought the claims asserted in *Action 2* against Horowitz in *Action 1*. As will be shown herein, the Amended Complaint fails to create any "new" case or controversy against Horowitz that could not have been brought in *Action 1*.

A. A Court of Competent Jurisdiction Awarded a Final Judgment on the Merits in *Action 1*

"'A judgment of a court having jurisdiction of the parties and of the subject matter operates as res judicata in the absence of fraud or collusion, even if obtained by default.'" See Saud, 929 F.2d at 919. This Court had proper subject matter jurisdiction over the federal trademark counterfeiting and infringement claims asserted in *Action 1* pursuant to Section 39 of the Lanham Act, 15 U.S.C. § 1121 and 28 U.S.C. §§ 1331 and 1338 and supplemental jurisdiction over the state-law claims under 28 U.S.C. § 1367 (a).

A bench trial was held in *Action 1* on September 14, 2009 and September 15, 2009 before Hon. Paul A. Crotty. Judge Crotty issued an order in *Action 1* finding Designers Imports liable on nine out of the ten claims asserted by Burberry, which was entered in this Court on January 19, 2010. See Ex. "F" to Fortuna Decl. Based on the *Action 1* Order, an Amended Final Judgment and Permanent Injunction dated June 25, 2010 and entered against Designers Imports in *Action 1* on July 29, 2010. No appeal was taken on the entered judgment and the time to appeal has now expired. Accordingly, Horowitz has met the first two requirements for dismissing *Action 2* on res judicata grounds.

B. *Action 2* and *Action 1* Involve the Same Parties and their Privies

"Res judicata is available to a newly named defendant with a close relationship to a defendant previously sued, when the claims in the new action are essentially the same as those in the prior action and the defendant's existence and participation in the relevant events was known to the plaintiff." See Waldman v. Village of Kiryas Joel, 39 F.Supp 2d 370, 381 (S.D.N Y. 1999) *aff'd* 207 F.3d 105 (2d Cir. 2000). This Circuit has found the existence of privity, allowing for the application of res judicata, when: "(1) a non-party consented to be bound by a settlement agreement (internal citation omitted), or (2) a non-party's interest in the prior litigation are virtually identical—i.e., virtual representation, (internal citation omitted), or (3) a non-party controlled and financed both suits (internal citation omitted). See Id. at 380, see also, Official Publications, Inc. v. Kable News Company, Inc., 811 F.Supp. 143, 147 (S.D.N.Y. 1993) ("The doctrine of *res judicata* also bars litigation of the same causes of action against defendants who were known to plaintiff at the time the first action was filed but were not named where the newly-added defendants have a sufficiently close relationship to the original defendant."); Cameron, 253 F.Supp.2d at 623 ("*Res judicata* operates to preclude claims, rather than particular configurations of parties."); Feitshans, 2006 WL 2714706, at *4 (Held that a prior confirmed arbitration award in favor of plaintiffs against the corporate defendants barred plaintiffs' claims for new damages on the same breach of contract claims at issue in the arbitration against officers of the corporation. In applying res judicata, the court held that because the "Individual Defendants were the sole owners (as well as directors and officers) of the Entity Defendants and that their interests were at stake in the prior arbitration which they likely controlled, there is a sufficiently close relationship between the parties in both instances such that privity exists.") see also Somerville House Management Ltd. v. Arts & Entertainment Television Network, 1993 WL 138736, at * 3 (S.D.N.Y. April 28, 1993); see also, Krepps v. Reiner, 377 Fed.Appx.65, 2010 WL 1932318, at * 2 (2d Cir. May 14, 2010) (Applying res judicata to dismiss an action brought by plaintiff Krepps in his individual capacity against defendant Reiner, in his individual capacity, where a prior action by Krepp's company against Reiner's former employer was dismissed.)

In Krepps, a determination as to "privity" of the parties was crucial to the court's res judicata analysis. Id. The Court determined that privity existed between Krepps and his company since Krepps did not dispute the district court's finding that he is bound by the prior judgment, as owner and party in control of his business. Id Further, in determining that privity exists between defendant Reiner and his employer so as to give rise to the defensive use of res judicata, the court stated that "[e]ven if Reiner were not an officer of Cognitive Arts, it is undisputed that he was an acting within the scope of his employment ...Thus, Cognitive Arts clearly had a relationship of vicarious liability with Reiner supporting a determination of privity for the purpose of claim preclusion." Id. at *3.

Herein, Burberry admits in its *Action 2* Complaint and "Contention of Related Case" that the plaintiffs in *Action 1* and *Action 2* are the same. Further, it is undeniable from the allegations in the *Action 2* Complaint and the record in *Action 1* that Horowitz is in "privity" with Designers Imports warranting the application of res judicata to *Action 2* Specifically, Burberry makes the following detailed allegations in the *Action 2* Complaint as to the close relationship that exists between Horowitz and Designers Imports:

> 31. Upon information and belief, as the sole shareholder of, officer of and decision maker for, the Designers Imports corporation, defendant Horowitz controlled and directed Designers' Imports participation in the Designers Imports Civil Action.
>
> 32. Specifically, Mr. Horowitz instructed the corporation's lawyers, made all client decisions for Designers Imports as a litigant in the case, and otherwise controlled the participation of Designers Imports in the lawsuit.
>
> 33. Further as sole shareholder of Designers Imports, Mr. Horowitz had an economic interest in the outcome of the case.

See Ex. "A" to Fortuna Decl. Furthermore, it should be noted that Burberry already obtained relief against Horowitz in *Action 1* under the terms of the permanent injunction, which enjoins Designers Imports and its "successors or assigns, *its officers, agents, servants, employees, and all persons acting in concert with them*" See Ex. "G" to Fortuna Decl. Accordingly, Burberry can not now deny Horowitz's involvement in the *Action 1* lawsuit or that his interests were closely aligned with Designers Imports in *Action 1*. See Waldman at 381 (In holding that Waldman's claims were barred on res judicata grounds, the court rejected Waldman's claim that he acted only in a representative capacity in the Waldman I action, where the allegations in his earlier complaint reference Waldman's individual rights and he participated in the litigation.) see also, Teltronics, 762 F.2d at 191 (In dismissing the action on res judicata grounds, the court found that based on plaintiff's "continuous and active 'non-party' participation and [ ] apparent day-to-day leadership role in the prior litigation" as the corporation's founder, president, chairman of the board and substantial shareholder, he was in privity with the corporation and bound by the results of the prior action.)

A further basis for finding privity between Horowitz and Designers Imports is that both are parties to the 2005 Settlement Agreement, which Burberry sues on in both *Action 1* and *Action 2*. Furthermore, the allegations in the *Action 1* complaint as to Horowitz's involvement in importing products in violation of Burberry's trademark and the line of questioning by Burberry's attorneys during Horowitz' deposition, unequivocally establish that Burberry knew of Horowitz's role as officer and sole shareholder of Designers Imports and his control of the day to day operations of Designers Imports prior to and throughout the proceedings in *Action 1*. Accordingly, in light of the close relationship between Horowitz and Designers Imports and Burberry's knowledge of that relationship, a finding that privity exists between Horowitz and Designers Imports so as to permit Horowitz to rely on the doctrine of res judicata in seeking the dismissal of *Action 2*.

C. The Claims in Action 1 and Action 2 Involved the Same Claims

The final requirement in determining whether res judicata bars *Action 2* is whether the two actions involve the same claims. Such an inquiry turns on whether the two claims in question arise from the same "nucleus of operative facts". Interoceanica Corp. v. Sounds Pilots, Inc., 107 F.3d 86, 91 (2d Cir. 1997); Waldman v. Village of Kiryas Joel, 207 F.3d 105, 108 (2d Cir. 2000); See Akhenaten, 544 F.Supp.2d at 331 (dismissing subsequent action on res judicata grounds finding that although "not all of the causes of action asserted by Plaintiff in this action were in fact asserted in the Prior Action, any claim now asserted ...*could have been asserted in the prior action* [emphasis added.]") Whether there exists a common "nucleus of operative facts" between the claims at issue, a court must look to see whether the "same transaction or connected series of transactions is at issue

[and] whether the same evidence is needed to support both claims." See Interoceanica, 107 F.3d at 90. Factors to be considered include whether the facts are "related in time, space, origin, or motivation, whether they form a convenient trial unit, and whether their treatment as a unit conforms to the parties' expectations or business understanding or usage." See Id. *citing* Restatement (Second) of Judgments § 24(b); see also, Waldman, 207 F.3d at 108.

Applying these standards to Burberry's claims against Horowitz in *Action 2*, it is indisputable that the claims do not merely arise from the same nucleus of operative facts, but are based on precisely ***identical*** facts at issue in *Action 1*. Firstly, Burberry admits in the allegations of the *Action 2* Complaint and in its counsel's statement contained in the "Contention of Related Case" that the same wrongful acts are at issue in both actions. See Ex. "A" to Fortuna Decl. Further, a comparison of the allegations in the *Action 1* Amended Complaint and the *Action 2* Complaint establish that the identical trademarks, the identical 2005 Settlement Agreement and the identical alleged sales of counterfeit Burberry products are at issue in both actions. While a claim against Horowitz, in his individual capacity, for violations of the Lanham Act is separate from a claim against Designers Imports, both claims arise from the same nucleus of operative facts. As a result, the same witnesses and the same evidence at issue in *Action 1* would apply to the claims in *Action 2* and litigating the claims against Horowitz together with the claims against Designers Imports in *Action 1* would have formed a convenient trial unit. Burberry cannot now avoid res judicata by choosing to omit the claims against Horowitz in *Action 1*.

Burberry's unilateral decision not to name Horowitz as a defendant in *Action 1* and assert its claims against him individually, when it easily could have, does not mean that its prior claims fall outside the same nucleus of operative facts as the claims now brought in *Action 2*. "A plaintiff cannot avoid the preclusive effect of a judgment simply by "splitting" his claim into various suits based on different legal theories. See Krepps v. Reiner, 377 Fed.Appx.65, 2010 WL 1932318, at *

2 (2d Cir. May 14, 2010); Norman v. Niagara Mohawk Power Corp., 873 F.2d 634, 638 (2d Cir. 1989) (Although RICO claim was not raised in prior action, dismissal of prior action barred subsequent action because "it [was] readily apparent that they were all part of the same cause of action and arose from a 'single core of operative facts.'"). "When the factual predicate upon which claims are based are substantially identical, the claims are deemed to be duplicative for purposes of res judicata." See Berlitz School of Languages of America, Inc. v. Everest House, 691 F.2d 211, 215 (2d Cir. 1980) (In affirming the dismissal of trademark infringement and unfair competition claims under Lanham Act and unfair competition and trademark dilution claims under New York State Law on res judicata grounds, the court determined that the factual predicate of the claims in the present and prior proceedings were the same. Specifically, claims in the present action are based on whether defendants can use of the name "Charles Berlitz" in authoring foreign language instructional books, and the issue at the heart of the prior three proceedings also involved the right of Charles Berlitz to use his name in connection with foreign language publications.); see also, Expert Elec., Inc. v. Levine, 554 F.2d 1227, 1235 (2d. Cir. 1977) ("[I]t is the facts surrounding the transaction or occurrence which operate to constitute the cause of action, not the legal theory upon which a litigant relies.") To permit Burberry to maintain *Action 2* against Horowitz vitiates the entire purpose of res judicata doctrine which requires a plaintiff to bring any and all legal theories about a particular set of facts forward in a single case, rather than unduly multiplying litigation and thereby wasting party and judicial resources.

Furthermore, Burberry cannot dispute that it was "on notice" of its potential claims against Horowitz when it filed *Action 1*. Burberry knew that Horowitz was operating his business individually for a time and had executed the 2005 Settlement Agreement in his individual capacity. See Ex. "D" to Fortuna Decl. Furthermore, based on the questions asked by Burberry's counsel during Horowitz's deposition (held 1.5 years before the trial in *Action 1*), it is indisputable that

Burberry knew that Horowitz was the sole shareholder of Designers Imports and made all decisions regarding the merchandising and advertising related to the operation of the business. See Ex. "E" to Fortuna Decl. In light of the foregoing, Burberry was required to assert all of its claims related to the sale of counterfeit Burberry products between 2006 and 2007 in the *Action 1* lawsuit. It chose not to do so then, and thus it cannot be permitted to do so now.

Allowing Burberry to proceed with *Action 2* against Horowitz for exactly the same sales of exactly the same products that were already at issue in *Action 1* runs afoul of the well-settled principles governing res judicata. See Federated Department Stores, 452 U.S. at 401 ("'[The] doctrine of *res judicata* is not a mere practice or procedure...It is a rule of fundamental and substantial justice, 'of public policy and of private peace,' which should be cordially regarded and enforced by the courts...[citation omitted]".) As recognized by the Supreme Court, the application of res judicata furthers simple justice and public policy—"'[s]imple justice' is achieved when a complex body developed over years is evenhandedly applied" and "'public policy' dictates that there be an end to litigation; that those who have contested an issue shall be bound by the result of the contest, and that matters once tried shall be considered forever settled by the parties." Id. Very simply, since Burberry admits in the *Action 2* complaint that *Actions 1* and *2* involve the same wrongful acts of trademark counterfeiting and infringement, the same wrongful activities are at issue, and, that it is seeking to hold Horowitz individually liable for the same wrongful activities which this Court has already found Designer's Import's to be liable in *Action 1*, it is indisputable that res judicata doctrine bars Burberry from pursuing *Action 2*.

POINT III

PLAINTIFFS' CLAIMS ARE BARRED BY THE MERGER DOCTRINE

While the application of res judicata is alone a basis for dismissing *Action 2*, Burberry is also barred from seeking to recover damages on the same claims already litigated in *Action 1* and reduced to a judgment under the merger doctrine, a corollary to the res judicata doctrine. "A defendant may raise the defense of merger to a claim that was originally interposed and superseded by a judgment. Any subsequent action must be brought on the judgment, not on the underlying claim." See NYPRAC-TORTS § 19:41 Merger and Bar. To the extent that Burberry's *Action 2* Complaint is seeking to enforce against Horowitz its prior judgment against Designers Imports, where as shown above there exists privity between the parties, Burberry's recourse is an action on the judgment. See Craven v. Rigas, 85 A.D.3d 1524, 1527-28 (3d Dep't 2011) (Affirming dismissal of Plaintiff's claims under the merger doctrine because "[p]ursuant to settled principles of res judicata, '[w]here a judgment is in favor of the plaintiff the claim underlying the action is *merged* in the judgment and cannot thereafter be used as a basis for an independent action [internal citation omitted].'")

In applying the merger doctrine, "[t]he general rule of merger is that once a plaintiff wins a judgment, it may not sue on those claims again because they are merged into the judgment… [A] [j]udgment for plaintiff merges the plaintiff's claim in the judgment and gives him or her a new claim on that judgment. See 50 CJS Judgments § 933 Doctrine of Merger; see also, Counsel Financial Services, LLC v. Leibowitz, Slip Copy, 2012 WL 1057311, at *3 (W.D.N.Y. March 27, 2012) *citing* Orix Credit Alliance v. Horten, 965 F.Supp. 481, 484 (S.D.N.Y.1997) (quoting Restatement (Second) of Judgments § 18 (1980)) ("Under the doctrine of merger, '[w]hen a valid and final personal judgment is rendered in favor of the plaintiff ... [t]he plaintiff cannot thereafter maintain an action on the original claim or any part thereof.'"); See also, Doherty v. Cuomo, 76

A.D.2d 14, 17-18 (4th Dep't 1980); Hellstern v Hellstern, 279 N.Y. 327, 336 (N.Y. 1938).

Burberry has already recognized its duty to proceed on the *Action 1* judgment rather than the underlying claims in bringing the State Court Action against Horowitz and RTC. See Ex. "C" to Fortuna Decl. In the State Court Action, Burberry is seeking to enforce the *Action 1* judgment against Horowitz individually and against RTC under a piercing the corporate veil theory, as well as additional claims for fraudulent conveyance. See Ex. "C" to Fortuna Decl. Thus, Burberry is not foreclosed of all recourse if this Court dismisses *Action 2*. See Feitshans, 2006 WL 2714706, *5 (While dismissing Plaintiff's first two causes of action on res judicata grounds, held plaintiff stated its third cause of action to hold defendants individually liable on the prior judgment on a piercing the corporate veil theory.) In light of the foregoing, all of Burberry's claims against Horowitz, which seek to re-litigate the issues raised in *Action* 1, were merged into the judgment in *Action 1*, and are an improper basis for bringing *Action 2*. Accordingly, the merger doctrine is an additional basis for dismissing Burberry's *Action 2* claims.

POINT IV

PLAINTIFFS ARE BARRED FROM BRINGING THE ACTION BY LACHES

The defense of laches is an equitable defense intended to "prevent defendants from being unfairly prejudiced when plaintiffs inexcusably delay in taking action." See, Eppendorf-Netheler-Hinz v. Enterton Company, 89 F.Supp 2d 483, 485 (S.D.N.Y. 2000); Conopco Inc v. Campbells Soup Company, 95 F.3d 187 (2d Cir. 1996). It is well-settled that a laches defense may be applied to claims brought for trademark infringement brought under the Lanham Act. See Id. at 193. In asserting a laches defense, a defendant must show that: "(1) the plaintiff knew of the defendant's misconduct; (2) the plaintiff inexcusably delayed in taking action; and (3) the defendant was prejudiced by the delay." See Fitzpatrick, 2008 WL 84541. at * 2. A defendant has been prejudiced by a delay when the assertion of a claim available some time ago would be "inequitable" in light of the delay in bringing that claim. See Conopco, 95 F.3d at 192.

As discussed in greater detail above, Burberry cannot deny that it was on notice of its potential claims against Horowitz when it filed *Action 1* in 2007. Indeed, one of Burberry's claims in *Action 1* was for breach of the 2005 Settlement Agreement (also being asserted in *Action 2*), which Horowitz had signed in his individual capacity. See Exs. "A", "B" & "D" to Fortuna Decl. Furthermore, a review of the 2005 Settlement Agreement shows that Burberry's in-house counsel had previously contacted Horowitz in 2004 regarding the alleged sale of counterfeit Burberry products. See Ex. "D" to Fortuna Decl. Additionally, a review of the questions asked by Burberry's counsel during Horowitz's deposition (held 1.5 years before the trial in *Action 1*) demonstrates that Burberry knew that Horowitz was the sole shareholder of Designers Imports and made all decisions regarding the merchandising and advertising related to the operation of the business. See Ex. "E" to Fortuna Decl. It also cannot be disputed that Horowitz participated in the trial of *Action 1* and had an economic interest in the prior litigation. As a result, Burberry's tactical decision in failing to join Horowitz as a defendant in *Action 1* and assert its claims against him at that time, but, instead, wait four years to assert their trademark rights on the sale of Burberry products that gave rise to *Action 1*, constitutes an unreasonable delay. The inexcusability of Burberry's delay is compounded by its failure to allege any new acts of trademark infringement against Horowitz in *Action 2* that would permit it o bring this action after sitting on its rights for so many years. Moreover, there is no question that Horowitz would be prejudiced if Burberry is allowed to proceed with *Action 2*. Not only would Horowitz be forced to expend a significant amount of attorney's fees and time in defending claims that could have readily been litigated as part of *Action 1*, the nature of the *Action 2* complaint seeks to deny Horowitz of an opportunity to defend the claims, by asking this Court to summarily adopt the findings and conclusions in *Action 1* and find him liable. Accordingly, the doctrine of laches bars Burberry's claims in *Action 2*.

POINT V

DEFENDANT AS PREVAILING PARTY IS ENTITLED TO COSTS AND ATTORNEY'S FEES

Upon dismissal of the Complaint, Horowitz, as the prevailing party, is entitled to attorney's fees and costs. Pursuant to 15 U.S.C. 1117 (a), "[t]he court in exceptional cases may award attorney fees to the prevailing party." An exceptional case warranting an award of attorney's fees has been found to exist where an "action was brought in bad faith, without an adequate investigation of the merits of the claim." See Universal City Studios, Inc v. Nintendo Co. Ltd, 615 F Supp. 838, 864 (S.D.N.Y. 1985) (Awarding defendant's attorney's fees where it found that plaintiff's trademark infringement case "was initiated for reasons other than a sincere belief in the merits of the underlying claims, and the investigation, or lack thereof, that preceded filing the complaint was designed to avoid discovery of the lack of substance of the complaint."); Viola Sportswear, Inc. v. Mimun, 574 F.Supp. 619, 620-21 (E.D.N.Y. 1983) (Awarding attorney's fees to defendants on the grounds that Plaintiff's action had no merit); see also, New Sensor Corp. v. CE Distribution LLC, 367 F.Supp.2d 283, 292 (E.D.N.Y. 2005)

As shown above, a cursory review of Burberry's *Action 2* complaint establishes that the claims it seeks to assert against Horowitz are barred by the doctrines of res judicata and merger in light of the final judgment on the merits that was previously entered in *Action 1*. As a result, it is well-settled that Burberry's only recourse is an action to enforce the judgment. Burberry already knew this at the time is instituted *Action 2*, since it had already filed the State Court Action against Horowitz seeking to hold him individually liable on the *Action 1* judgment under a piercing the corporate veil theory. See Ex. "C" annexed to Fortuna Decl. It appears that Burberry, in bad faith and in disregard of well-settled law, and likely due to the heavy burden borne by a plaintiff in piercing the corporate veil to hold an officer and shareholder liable on a debt of a corporation, decided to hedge its bets by simultaneously instituting an action in Federal Court to hold Horowitz primarily liable on the same trademark claims litigated in *Action 1*. Perhaps, such simultaneous litigation has little impact on a large multi-national corporation like Burberry; however, it can detrimentally impact the solvency of a small business person like Horowitz. In simultaneously litigating two actions, Horowitz's attention is diverted from his business and he is forced to expend substantial resources in litigating essentially the same claims in two forums, leaving one to ask whether driving Horowitz out of business is Burberry's ultimate goal in bringing this action. Thus, given the lack of merit of Burberry's *Action 2* claims and the substantial prejudice suffered by Horowitz in defending such vexatious litigation, an award of attorney's fees is proper under 15 U.S.C. 1117 § (a).

In addition, F.R.C.P. § 54 (d) (1) states that "[u]nless a federal statute, these rules, or a court order provides otherwise, costs-other than attorney's fees—should be allowed to the prevailing party." See Whitfield v. Scully, 241 F.3d 264, (2d Cir. 2001) (affirming district court's award of costs under F.R.C.P. § 54(d)(1); Scientific Holding Co., Ltd. v. Plessey Inc , 510 F.2d 15, 28 (2d Cir. 1974) (affirming award of costs to defendants as "prevailing party" with respect to plaintiff's claims even though defendant did not succeed in counterclaim.) Therefore, upon dismissal of Burberry's action, on the grounds stated above, Horowitz respectfully requests that this Court award costs pursuant to F.R.C.P. § 54 (d) (1).

CONCLUSION

For the foregoing reasons, defendant Asher Horowitz respectfully requests that this Court dismiss Plaintiffs' entire complaint, award costs and attorney's fees to defendant as statutorily provided, together with such other and further relief as this Court deems just and proper.

Respectfully submitted,

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